

MORAVIA COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2006

Peak & Gerdes, LLP
Certified Public Accountants
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Moravia Community School District

Officials

<u>NAME</u>	<u>TITLE</u>	<u>EXPIRES</u>
<u>Board of Education</u> (Before September, 2005 Election)		
Chad Martin	President	2006
Lori Argo	Vice-President	2006
Dale Brinegar	Board Member	2007
Connie Brown	Board Member	2007
G.E. Luse	Board Member	2005

<u>Board of Education</u> (After September, 2005 Election)		
Chad Martin	President	2006
Lori Argo	Vice-President	2006
Dale Brinegar	Board Member	2007
Connie Brown	Board Member	2007
G.E. Luse	Board Member	2008

<u>School Officials</u>		
Graham Quinn	Superintendent	2006
Stacy Moore	District Secretary/Treasurer/ Business Manager	2006
Rick Engel	Attorney	2006

Moravia Community School District

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Independent Auditor's Report

To the Board of Education of
Moravia Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Moravia Community School District, Moravia Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Moravia Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 15, 2006 on our consideration of Moravia Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 16 and 39 through 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Moravia Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Gerdes, LLP
Certified Public Accountants

September 15, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Moravia Community School District provides this Management Discussion and Analysis of its financial statements. This narrative overview and analysis of district financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$2,766,571 in fiscal 2005 to \$2,979,659 in fiscal 2006, while General Fund expenditures decreased from \$2,905,637 in fiscal 2005 to \$2,871,303 in fiscal 2006. The District's General Fund balance increased from \$458,065 in fiscal 2005 to \$566,421 in fiscal 2006, a 24% increase.
- The decrease in expenditures was due primarily to a decrease in the need for some Special Education services such as work study and alternative school transportation. The primary reason the General Fund balance increased is because revenue due the District at June 30, 2005 was not received in time to be included in the FY 2005 income and is included in the FY 2006 income. These revenues included special education tuition from local school districts and Impact Aid grants. As a result, the District increased the current year General Fund carryover balance.

- **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Moravia Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how government services were financed in the short term as well as what remains for future spending. Fund financial statements report Moravia Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The proprietary fund financial statements offer short-term and long-term financial information about activities the District operates like a business. In Moravia Community School District, the school nutrition program operations are the only enterprise reported as a proprietary fund.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-major funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Moravia Community School District Annual Financial Report

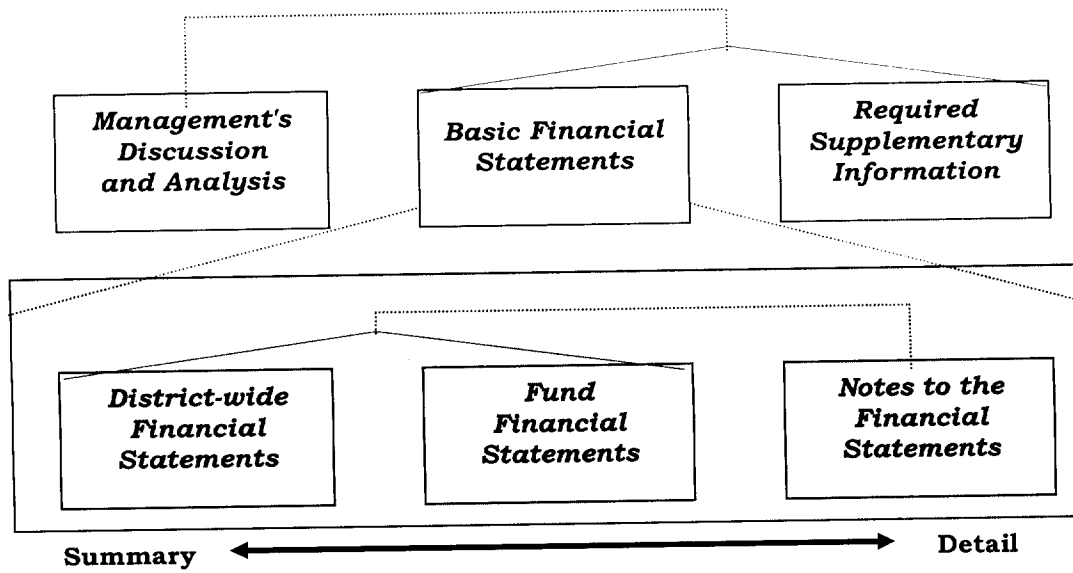


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services	
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are

one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and the Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3 Combined Statement of Net Assets (Expressed in Thousands)								
	Governmental Activities		Business type Activities		Total District		Total Change	
	June 30,		June 30,		June 30,		June 30,	
	2006	2005	2006	2005	2006	2005	2006-2005	
Current and other assets	\$ 1,834	1,717	5	6	1,839	1,723	6.7%	
Capital assets	1,573	1,391	28	21	1,601	1,412	13.4%	
Total assets	3,407	3,108	33	27	3,440	3,135	9.7%	
Long-term liabilities	574	695	-	-	574	695	-17.4%	
Other liabilities	1,111	869	5	5	1,116	874	27.7%	
Total liabilities	1,685	1,564	5	5	1,690	1,569	7.7%	
Net assets								
Invested in capital assets								
net of related debt	918	864	28	21	946	885	6.9%	
Restricted	158	174	-	-	158	174	-9.2%	
Unrestricted	646	506	-	1	646	507	27.4%	
Total net assets	\$ 1,722	1,544	28	22	1,750	1,566	11.7%	

The District's combined net assets increased by nearly 11.7%, or approximately \$184,000, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$16,000, or 9% over the prior year. The decrease was primarily a result of spending more monies than received in the Management Levy Fund and in the Moravia Education Foundation Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$139,000, or 27%. This increase in unrestricted net assets was the result of the District receiving an increase in revenue due to the late receipts of FY 05 revenues actually received and recorded in FY 06.

Figure A-4 shows the change in net assets for the year ended June 30, 2006.

Figure A-4 Changes in Net Assets (Expressed in Thousands)								
	Governmental Activities		Business type Activities		Total District		Total Change	
	2006	2005	2006	2005	2006	2005	2005-2006	
Revenues:								
Program revenues:								
Charges for service	\$ 432	516	79	70	511	586	-12.7%	
Operating grants, contributions and restricted interest	637	446	84	77	721	523	37.9%	
General revenues:								
Property tax	825	877	-	-	825	877	-5.9%	
Income surtax	107	103	-	-	107	103	3.9%	
Local option sales and service tax	170	135	-	-	170	135	25.9%	
Unrestricted state grants	1,236	1,147	-	-	1,236	1,147	7.8%	
Unrestricted investment earnings	27	12	-	-	27	12	125.0%	
Other	3	-	-	-	3	-	100.0%	
Total revenues	3,437	3,236	163	147	3,600	3,383	6.4%	
Program expenses:								
Governmental activities:								
Instruction	2,077	2,239	-	-	2,077	2,239	-7.2%	
Support services	972	919	-	-	972	919	5.8%	
Non-instructional programs	1	-	157	154	158	154	2.6%	
Other expenses	210	215	-	-	210	215	-2.3%	
Total expenses	3,260	3,373	157	154	3,417	3,527	-3.1%	
Change in net assets	\$ 177	(137)	6	(7)	183	(144)		

In fiscal 2006, property tax and unrestricted state grants account for 57.25% of the revenue from governmental activities while charges for service and operating grants and contributions account for 100% of the revenue from the business type activities.

The Districts total revenues were approximately \$3.6 million of which \$3.4 million was for governmental activities and approximately \$163,000 was for business type activities.

As shown in figure A-4, the District as a whole experiences a 6.4% increase in revenues and a 3.1% decrease in expenses. Unrestricted state grants increased approximately \$89,000 and local option sales and service tax increased approximately \$35,000. The decrease in expenses was primarily due to decreased cost for some Special Education services.

Governmental Activities

Revenues for governmental activities were \$3,437,451 and expenses were \$3,259,998. During the year, the District was able to increase fund balance by \$177,453.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5						
Total and Net Cost of Governmental Activities						
(Expressed in Thousands)						
	Total Cost of Services			Net Cost of Services		
	2006	2005	Change 2005-2006	2006	2005	Change 2005-2006
Instruction	\$ 2,077	2,239	-7.2%	1,241	1,370	-9.4%
Support services	972	919	5.8%	830	914	-9.2%
Non-instructional programs	1	-	100.0%	1	-	100.0%
Other expenses	210	215	-2.3%	119	127	-6.3%
Totals	<u>\$ 3,260</u>	<u>3,373</u>	<u>-3.4%</u>	<u>2,191</u>	<u>2,411</u>	<u>-9.1%</u>

- The cost financed by users of the District's programs was \$432,287.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$637,242.
- The net cost of governmental activities was financed with \$1,102,204 in property and other tax, including local option sales and services tax, and \$1,236,158 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$162,782 representing an 11.7% increase over the prior year while expenses totaled \$156,827, a 2.1% increase over the prior year. The District's business type activities include the School Nutrition Fund. Revenues for these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2006, the District increased prices on the sale of juice drinks and adult lunches. This increase in revenue was used to update equipment and fund the portion of janitorial services used in the lunch room.

INDIVIDUAL FUND ANALYSIS

As previously noted, Moravia Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$621,949, well below last year's ending fund balances of \$751,380. The primary reason for the decrease was the deficit spending in the Capital Projects Fund.

Governmental Fund Highlights

- The District's increasing General Fund financial position is the result of many factors. Three years of Impact Aid funds and Special Education funds from FY 05 were received in fiscal year 2006, and costs were reduced in the Special Education area.
- The General Fund balance increased from \$458,065 to \$566,421, due in part to the receipt of Special Education income and Impact aid income in the current fiscal year which related to prior fiscal years, and a reduction in expenditure commitments of the District.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from a deficit of (\$17,739) in fiscal 2005 to (\$2,170) in fiscal 2006. While revenues remained approximately the same, the District decreased spending from the PPEL to increase the financial condition of the fund.
- The District passed the SILO Tax in fiscal 2004 and started receiving revenue in fiscal 2005. Revenue for the year was \$170,444 with expenditures of \$307,981. The School Board voted to apply \$65,000 for property tax relief by lowering the future Debt Service levy by an equivalent amount for FY 06.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$22,012 at June 30, 2005 to \$27,967 at June 30, 2006, representing an increase of approximately 27% due primarily to the District increasing meal and juice prices.

BUDGETARY HIGHLIGHTS

Over the course of the year, Moravia Community School District did not amend its annual budget.

The District's revenues were \$247,215 more than budgeted revenues, a variance of 7%. The most significant variance resulted from the District receiving more in federal impact aid than originally anticipated.

Total expenditures were more than budgeted, due primarily to the District's lack of budgeting for building repairs funded through the LOSS tax. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practices, the certified budget was exceeded in the instruction, support services and other expenditures functional areas.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$1.6 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 13.4% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$92,009.

The original cost of the District's capital assets was \$3.3 million. Governmental funds account for \$3.2 million, with the remainder of \$0.1 million accounted for in the Proprietary, School Nutrition Fund.

During the year, the major increases in assets were the costs incurred to perform building repairs, primarily in the gymnasium.

Figure A-6
Capital Assets, net of Depreciation
(Expressed in Thousands)

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
Land	\$ 1	1	-	-	1	1	0.0%
Buildings	1,433	1,264	-	-	1,433	1,264	13.4%
Improvements other than buildings	10	12	-	-	10	12	-16.7%
Furniture and equipment	128	113	28	21	156	134	16.4%
Totals	\$ 1,572	1,390	28	21	1,600	1,411	13.4%

Long-Term Debt

At June 30, 2006, the District had \$574,000 in general obligation bonds and early retirement obligations. This represents a decrease of approximately 17.4% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

Figure A-7
Outstanding Long-term Obligations
(Expressed in Thousands)

	Total District		Total Change
	June 30,		June 30,
	2006	2005	2005-2006
General obligation bonds	\$ 570	645	-11.6%
Early retirement	4	50	-92.0%
Totals	\$ 574	695	-17.4%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Although the District has experienced declining enrollment for two of the past three years, the District expects a slight increase in enrollment due to a new housing development in progress within the District.
- The District has evaluated the condition of its transportation vehicles and determined that no busses need replaced during 2007, but repairs on gym pylons left a negative fund balance in the Local Option Sales Tax Fund. This negative balance will be replaced before any additional expenditures will be made.
- Fiscal 2006 was the second year of a two-year contract with the Moravia Education Teacher Association. The District will negotiate a new agreement during fiscal 2007. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Stacy Moore, District Secretary/Treasurer and Business Manager, Moravia Community School District, 505 N. Trussell, Moravia, Iowa, 52571.

Basic Financial Statements

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents:			
Other	\$ 449,119	1,910	451,029
Investments	127,792	-	127,792
Receivables:			
Property tax:			
Delinquent	16,101	-	16,101
Succeeding year	957,597	-	957,597
Accounts	8,762	-	8,762
Due from other funds	5,000	-	5,000
Due from other governments	270,005	-	270,005
Inventories	-	2,855	2,855
Capital assets, net of accumulated depreciation	1,572,532	28,202	1,600,734
Total assets	3,406,908	32,967	3,439,875
Liabilities			
Excess of warrants issued over bank balance	111,908	-	111,908
Accounts payable	13,243	-	13,243
Salaries and benefits payable	4,968	-	4,968
Due to other governments	22,015	-	22,015
Due to other funds	-	5,000	5,000
Accrued interest payable	1,520	-	1,520
Deferred revenue - succeeding year property tax	957,597	-	957,597
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	80,000	-	80,000
Early retirement payable	4,000	-	4,000
Portion due after one year:			
General obligation bonds payable	490,000	-	490,000
Total liabilities	1,685,251	5,000	1,690,251
Net assets			
Invested in capital assets, net of related debt	917,963	28,202	946,165
Restricted for:			
Talented and gifted	18,293	-	18,293
Management levy	(26,044)	-	(26,044)
Physical plant and equipment levy	(2,170)	-	(2,170)
Other special revenue purposes	167,972	-	167,972
Unrestricted	645,643	(235)	645,408
Total net assets	\$ 1,721,657	27,967	1,749,624

See notes to financial statements.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(792,147)	-	(792,147)
(101,955)	-	(101,955)
(346,680)	-	(346,680)
(1,240,782)	-	(1,240,782)
(81,765)	-	(81,765)
(75,068)	-	(75,068)
(441,552)	-	(441,552)
(57,494)	-	(57,494)
(174,429)	-	(174,429)
(830,308)	-	(830,308)
(618)	-	(618)
(42,503)	-	(42,503)
(20,285)	-	(20,285)
-	-	-
(55,973)	-	(55,973)
(118,761)	-	(118,761)
(2,190,469)	-	(2,190,469)
-	5,944	5,944
(2,190,469)	5,944	(2,184,525)
\$ 786,983	-	786,983
17,548	-	17,548
20,403	-	20,403
106,826	-	106,826
170,444	-	170,444
1,236,158	-	1,236,158
26,477	11	26,488
3,083	-	3,083
2,367,922	11	2,367,933
177,453	5,955	183,408
1,544,204	22,012	1,566,216
\$ 1,721,657	27,967	1,749,624

Balance Sheet
Governmental Funds

June 30, 2006

	General	Special Revenue Moravia Education Foundation	Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments:				
Other	\$ 379,776	6,154	63,189	449,119
Investments	-	127,792	-	127,792
Receivables:				
Property tax:				
Delinquent	13,895	-	2,206	16,101
Succeeding year	705,265	-	252,332	957,597
Accounts	8,762	-	-	8,762
Due from other funds	53,208	-	2,112	55,320
Due from other governments	244,735	-	25,270	270,005
Total assets	\$ 1,405,641	133,946	345,109	1,884,696
Liabilities and Fund Balances				
Liabilities:				
Excess of warrants issued over bank balance	\$ -	-	111,908	111,908
Accounts payable	2,164	3,358	7,721	13,243
Salaries and benefits payable	4,968	-	-	4,968
Due to other governments	22,015	-	-	22,015
Due to other funds	2,112	-	48,208	50,320
Deferred revenue:				
Succeeding year property tax	705,265	-	252,332	957,597
Other	102,696	-	-	102,696
Total liabilities	839,220	3,358	420,169	1,262,747
Fund balances:				
Reserved for talented and gifted	18,293	-	-	18,293
Reserved for debt service	-	-	339	339
Reserved - donor specified	-	125,561	-	125,561
Unreserved	548,128	5,027	(75,399)	477,756
Total fund balances	566,421	130,588	(75,060)	621,949
Total liabilities and fund balances	\$ 1,405,641	133,946	345,109	1,884,696

See notes to financial statements.

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2006

Total fund balances of governmental funds (page 21) \$ 621,949

***Amounts reported for governmental activities in the
Statement of Net Assets are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.

1,572,532

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.

102,696

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.

(1,520)

Long-term liabilities, including general obligation bonds payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported in the funds.

(574,000)

Net assets of governmental activities (page 18)

\$ 1,721,657

See notes to financial statements.

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2006

	General	Special Revenue Moravia Education Foundation	Nonmajor Governmental Funds	Total
Revenues:				
Local sources:				
Local tax	\$ 819,770	-	278,671	1,098,441
Tuition	250,341	-	-	250,341
Other	36,150	10,975	164,383	211,508
State sources	1,552,826	-	-	1,552,826
Federal sources	320,572	-	-	320,572
Total revenues	2,979,659	10,975	443,054	3,433,688
Expenditures:				
Current:				
Instruction:				
Regular instruction	1,215,729	12,751	68,193	1,296,673
Special instruction	312,106	-	1,887	313,993
Other instruction	343,418	-	167,056	510,474
	1,871,253	12,751	237,136	2,121,140
Support services:				
Student services	81,128	-	637	81,765
Instructional staff services	74,464	-	604	75,068
Administration services	427,430	-	14,122	441,552
Operation and maintenance of plant services	186,785	-	9,885	196,670
Transportation services	138,310	-	53,313	191,623
	908,117	-	78,561	986,678
Non-instructional programs	-	-	618	618
Other expenditures:				
Facilities acquisition	-	-	267,315	267,315
Long-term debt:				
Principal	-	-	75,000	75,000
Interest and fiscal charges	-	-	20,435	20,435
AEA flowthrough	91,933	-	-	91,933
	91,933	-	362,750	454,683
Total expenditures	2,871,303	12,751	679,065	3,563,119
Excess (deficiency) of revenues over (under) expenditures	108,356	(1,776)	(236,011)	(129,431)
Other financing sources (uses):				
Operating transfers in	-	-	65,659	65,659
Operating transfers out	-	-	(65,659)	(65,659)
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	108,356	(1,776)	(236,011)	(129,431)
Fund balances beginning of year	458,065	132,364	160,951	751,380
Fund balances end of year	\$ 566,421	130,588	(75,060)	621,949

See notes to financial statements.

Moravia Community School District

Exhibit F

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2006

Net change in fund balances - total governmental funds (page 23) **\$ (129,431)**

*Amounts reported for governmental activities in the
Statement of Activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures was more than depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 270,312	
Depreciation expense	<u>(88,341)</u>	181,971

Because some revenues will not be collected for several months after the District's year end, they are not considered available revenues and are deferred in the governmental funds.

3,763

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues were less than repayments, as follows:

Issued	-	
Repaid	<u>75,000</u>	75,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

150

Payment of long-term liabilities is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Net Assets. Current year payments of early retirement were more than increases in the early retirement, as follows:

Increase in early retirement	-	
Decrease in early retirement	<u>46,000</u>	<u>46,000</u>

Change in net assets of governmental activities (page 20) **\$ 177,453**

See notes to financial statements.

Moravia Community School District

Exhibit G

Statement of Net Assets
Proprietary Fund

June 30, 2006

	<u>School</u> <u>Nutrition</u>
Assets	
Cash and cash equivalents	\$ 1,910
Inventories	2,855
Capital assets, net of accumulated depreciation	<u>28,202</u>
Total assets	<u>32,967</u>
Liabilities	
Due to other funds	<u>5,000</u>
Total liabilities	<u>5,000</u>
Net Assets	
Invested in capital assets, net of related debt	28,202
Unrestricted	<u>(235)</u>
Total net assets	<u>\$ 27,967</u>

See notes to financial statements.

Moravia Community School District

Exhibit H

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund

Year ended June 30, 2006

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for service	<u>\$ 78,661</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	59,817
Benefits	6,779
Purchased services	598
Supplies	85,965
Depreciation	<u>3,668</u>
Total operating expenses	<u>156,827</u>
Operating loss	<u>(78,166)</u>
Non-operating revenues:	
State sources	2,165
Federal sources	81,945
Interest income	<u>11</u>
Total non-operating revenues	<u>84,121</u>
Net income	5,955
Net assets beginning of year	<u>22,012</u>
Net assets end of year	<u><u>\$ 27,967</u></u>

See notes to financial statements.

Moravia Community School District

Exhibit 1

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 78,661
Cash payments to employees for services	(66,596)
Cash payments to suppliers for goods and services	<u>(75,021)</u>
Net cash used by operating activities	<u>(62,956)</u>
Cash flows from non-capital financing activities:	
State grants received	2,165
Federal grants received	<u>71,024</u>
Net cash provided by non-capital financing activities	<u>73,189</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(10,695)</u>
Cash flows from investing activities:	
Interest on investments	<u>11</u>
Net (decrease) in cash and cash equivalents	(451)
Cash and cash equivalents at beginning of year	2,361
Cash and cash equivalents at end of year	<u><u>\$ 1,910</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (78,166)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	10,921
Depreciation	3,668
Decrease in inventories	716
(Decrease) in accounts payable	<u>(95)</u>
Net cash used by operating activities	<u><u>\$ (62,956)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received \$10,921 of federal commodities

See notes to financial statements.

Moravia Community School District

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

Moravia Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Moravia, Iowa, and the predominate agricultural territory of Appanoose, Davis and Monroe Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Moravia Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Moravia Community School District has one component unit which meets the Governmental Accounting Standards Board criteria.

Blended Component Unit – The Moravia Education Foundation (Foundation) is included in the financial statements of the Moravia Community School District because its relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The members and Board of Directors of the Foundation consist of the members of the District's Board of Education. In addition, the purpose of the Foundation is to support the activities of the Moravia Community School District.

Jointly Governed Organizations – The District participates in jointly governed organizations which provide services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Appanoose, Davis and Monroe County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Special Revenue – Moravia Education Foundation Fund is utilized to provide advancement, enhancement, or support to education in the Moravia Community School District.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting journal entries to the cash basis financial records.

D. Assets, Liabilities, and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Improvements other than buildings	2,500
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – District employees accumulate a limited amount of vacation time; however, the unused amounts are not paid at termination, death or retirement. Consequently, no accrual is made in the financial statements for compensated absences.

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the instruction, support services and other expenditures functional areas exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the deposits to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	\$ 536,421

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Service.

The Foundation invests in a checking account and stock. At June 30, 2006, the carrying amount of the stock was \$39,537, and the fair value was \$127,792. The stock is reported at fair value, as determined by the investment company handling the account. The Foundation's investments are all category 1, which means that the investments are held by the Foundation in the Foundation's name. The balance of the Foundation's funds are reported at the carrying amount which reasonably estimates fair value.

(3) Due From and Due to Other Funds

The details of interfund receivables and payables at June 30, 2006 are as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue:	
	Physical Plant and Equipment Levy	\$ 25,587
	Student Activity	2,783
	Management Levy	19,838
	Enterprise:	
	School Nutrition	5,000
		<u>53,208</u>
Capital Projects	General	<u>2,112</u>
		<u>\$ 55,320</u>

The above either represents loans from one fund to another fund, or corrective transfers that need to be made.

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	<u>\$ 65,659</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 1,000	-	-	1,000
Total capital assets not being depreciated	1,000	-	-	1,000
Capital assets being depreciated:				
Buildings	2,523,605	224,812	-	2,748,417
Improvements other than buildings	26,690	-	-	26,690
Furniture and equipment	357,767	45,500	-	403,267
Total capital assets being depreciated	2,908,062	270,312	-	3,178,374
Less accumulated depreciation for:				
Buildings	1,259,347	55,973	-	1,315,320
Improvements other than buildings	14,679	1,335	-	16,014
Furniture and equipment	244,475	31,033	-	275,508
Total accumulated depreciation	1,518,501	88,341	-	1,606,842
Total capital assets being depreciated, net	1,389,561	181,971	-	1,571,532
Governmental activities capital assets, net	\$ 1,390,561	181,971	-	1,572,532
Business type activities:				
Furniture and equipment	\$ 101,840	10,695	-	112,535
Less accumulated depreciation	80,665	3,668	-	84,333
Business type activities capital assets, net	\$ 21,175	7,027	-	28,202

Depreciation expense was charged to the following functions:

Government activities:		
Instruction:		
Regular		\$ 1,250
Other		583
Support services:		
Operation and maintenance of plant		2,229
Transportation		28,306
		32,368
Unallocated		55,973
Total depreciation expense - governmental activities		\$ 88,341
Business type activities:		
Food service operations		\$ 3,668

(6) **Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 645,000	-	75,000	570,000	80,000
Early retirement	50,000	-	46,000	4,000	4,000
Total	\$ 695,000	-	121,000	574,000	84,000

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness is as follows:

Bond Issue of March 1, 2003				
Year Ending June 30,	Interest Rates	Principal	Interest	Total
2007	2.40%	\$ 80,000	18,235	98,235
2008	2.75%	85,000	16,315	101,315
2009	3.05%	85,000	13,977	98,977
2010	3.30%	85,000	11,385	96,385
2011	3.45%	90,000	8,580	98,580
2012	3.70%	90,000	5,475	95,475
2013	3.90%	55,000	2,145	57,145
Total		\$ 570,000	76,112	646,112

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed twenty years of full-time service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives are equal to \$700 per year of service up to a maximum of \$20,000. The early retirement incentive is payable in two payments, on July 15th of the year of retirement and July 15th of the year following retirement. Early retirement incentive benefits paid during the year ended June 30, 2006 totaled \$46,000. At June 30, 2006, the District has an obligation to one participant with a total liability of \$4,000.

(7) Operating Lease

The District has entered into an operating lease for various electronic equipment. Payments under these leases totaled \$8,881 during the fiscal year. Future minimum lease payments in relation to these leases are as follows:

Year Ending June 30,	Amount
2007	\$ 8,348
2008	4,500
2009	4,500
2010	4,500
Total	<u>\$ 21,848</u>

(8) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$104,676, \$104,655, and \$97,867, respectively, equal to the required contributions for each year.

(9) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$91,933 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Budget Overexpenditure

Per the Code of Iowa, expenses may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, expenses in the instruction, support services and other expenditures functional areas exceeded the amounts budgeted.

(12) Deficit Fund Balances

The Physical Plant and Equipment Levy Fund had a deficit fund balance of \$2,170 at June 30, 2006. The Management Levy Fund had a deficit fund balance of \$26,044 at June 30, 2006. The Capital Projects Fund had a deficit fund balance of \$84,569 at June 30, 2006.

(13) Moravia Education Foundation

The Moravia Education Foundation is a 501 (c) 3 organization reported as a Special Revenue Fund in the financial statements. The purpose of the Foundation is to provide advancement, enhancement, or support to education in the Moravia School District. The bylaws state that 90% of the realized income will be used to support grants, and 10% will be reinvested in the fund, along with the original principal amount. At June 30, 2006, the District determined that \$125,561 of the total amount in this fund must remain in perpetuity to fund the activities of the foundation. This amount is reported as a reserved fund balance on the balance sheet.

Required Supplementary Information

Moravia Community School District

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts Original	Final to Actual Variance
Revenues:					
Local sources	\$ 1,560,290	78,672	1,638,962	1,488,563	150,399
Intermediate sources	-	-	-	62,500	(62,500)
State sources	1,552,826	2,165	1,554,991	1,579,192	(24,201)
Federal sources	320,572	81,945	402,517	219,000	183,517
Total revenues	3,433,688	162,782	3,596,470	3,349,255	247,215
Expenditures:					
Instruction	2,121,140	-	2,121,140	2,032,500	(88,640)
Support services	986,678	-	986,678	894,900	(91,778)
Non-instructional programs	618	156,827	157,445	195,000	37,555
Other expenditures	454,683	-	454,683	194,612	(260,071)
Total expenditures	3,563,119	156,827	3,719,946	3,317,012	(402,934)
Excess (deficiency) of revenues over (under) expenditures	(129,431)	5,955	(123,476)	32,243	(155,719)
Other financing sources (uses), net	-	-	-	65,000	(65,000)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(129,431)	5,955	(123,476)	97,243	(220,719)
Balances beginning of year	751,380	22,012	773,392	664,422	108,970
Balances end of year	\$ 621,949	27,967	649,916	761,665	(111,749)

See accompanying independent auditor's report.

Moravia Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District did not adopt a budget amendment.

During the year ended June 30, 2006, disbursements in the instruction, support services and other expenditures functions exceeded the amounts budgeted.

Other Supplementary Information

Moravia Community School District

Schedule I

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2006

	Special Revenue					Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Capital Projects	Debt Service	
Assets						
Cash and pooled investments	\$ -	40,167	23,022	-	-	63,189
Receivables:						
Property tax:						
Delinquent	1,472	-	395	-	339	2,206
Succeeding year	133,000	-	21,077	-	98,255	252,332
Interfund receivable	-	-	-	2,112	-	2,112
Due from other governments	-	-	-	25,270	-	25,270
Total assets	\$ 134,472	40,167	44,494	27,382	98,594	345,109
Liabilities and Fund Balances						
Liabilities:						
Excess of warrants issued over bank balance	\$ 7,678	-	-	104,230	-	111,908
Accounts payable	-	-	-	7,721	-	7,721
Interfund payable	19,838	2,783	25,587	-	-	48,208
Deferred revenue:						
Succeeding year property tax	133,000	-	21,077	-	98,255	252,332
Total liabilities	160,516	2,783	46,664	111,951	98,255	420,169
Fund balances:						
Reserved for debt service	-	-	-	-	339	339
Unreserved	(26,044)	37,384	(2,170)	(84,569)	-	(75,399)
Total fund balances	(26,044)	37,384	(2,170)	(84,569)	339	(75,060)
Total liabilities and fund balances	\$ 134,472	40,167	44,494	27,382	98,594	345,109

See accompanying independent auditor's report.

Moravia Community School District

Schedule 2

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2006

	Special Revenue					Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Capital Projects	Debt Service	
Revenues:						
Local sources:						
Local tax	\$ 70,276	-	20,403	170,444	17,548	278,671
Other	2,609	161,774	-	-	-	164,383
Total revenues	72,885	161,774	20,403	170,444	17,548	443,054
Expenditures:						
Current:						
Instruction:						
Regular instruction	68,193	-	-	-	-	68,193
Special instruction	1,887	-	-	-	-	1,887
Other instruction	2,811	164,245	-	-	-	167,056
Support services:						
Student services	637	-	-	-	-	637
Instructional staff services	604	-	-	-	-	604
Administration services	14,122	-	-	-	-	14,122
Operation and maintenance of plant services	9,885	-	-	-	-	9,885
Transportation services	7,813	-	-	45,500	-	53,313
Non-instructional programs	618	-	-	-	-	618
Other expenditures:						
Facilities acquisition	-	-	4,834	262,481	-	267,315
Long-term debt:						
Principal	-	-	-	-	75,000	75,000
Interest and fiscal charges	-	-	-	-	20,435	20,435
Total expenditures	106,570	164,245	4,834	307,981	95,435	679,065
Excess (deficiency) of revenues over (under) expenditures	(33,685)	(2,471)	15,569	(137,537)	(77,887)	(236,011)
Other financing sources (uses):						
Operating transfers in	-	-	-	-	65,659	65,659
Operating transfers out	-	-	-	(65,659)	-	(65,659)
Total other financing sources (uses)	-	-	-	(65,659)	65,659	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(33,685)	(2,471)	15,569	(203,196)	(12,228)	(236,011)
Fund balances beginning of year	7,641	39,855	(17,739)	118,627	12,567	160,951
Fund balances end of year	\$ (26,044)	37,384	(2,170)	(84,569)	339	(75,060)

See accompanying independent auditor's report.

Moravia Community School District

Schedule 3

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
Interest	\$ -	1,177	-	(9)	1,168
Vocal Music	222	174	281	-	115
Variety Show	1,418	-	743	-	675
Band Trip	10,747	38,876	44,440	(93)	5,090
Year book	(7,099)	3,950	185	-	(3,334)
Clark Memorial	-	925	759	-	166
High School Cheerleaders	781	1,741	1,763	-	759
Book order	-	3,045	3,045	-	-
Drama	372	818	-	-	1,190
Spanish Club	22	350	144	-	228
FFA	3,012	14,115	14,678	-	2,449
FHA	4,560	1,604	2,356	-	3,808
Acts of Kindness	222	-	222	-	-
Student Council	230	838	943	-	125
Academic Dream	(1)	255	235	-	19
Student Development	439	358	92	-	705
Elementary	2,669	18,992	20,838	102	925
Concessions	-	16,442	16,543	-	(101)
Class of 2011	837	1,487	652	-	1,672
High School Activity	338	1,716	810	-	1,244
NHS	75	466	488	-	53
Class of 2010	470	1,195	328	-	1,337
Europe	879	2,927	2,859	-	947
Speech	69	-	36	-	33
Class of 2012	5	172	172	-	5
Class of 2013	-	1,904	1,901	-	3
Class of 2006	7,185	9,140	16,325	-	-
Class of 2007	6,227	5,550	2,509	-	9,268
Class of 2008	2,074	684	227	-	2,531
Class of 2009	1,741	1,090	138	-	2,693
Activity Passes	28	16,713	16,741	-	-
Junior High Athletics	(9)	-	-	-	(9)
Boys Basketball	543	10	361	-	192
High School Football	-	3,380	2,294	-	1,086
Baseball	(720)	408	1,229	-	(1,541)
Boys Track	310	500	42	-	768
Wrestling	(84)	305	1,230	-	(1,009)
Weight Lifting	2,031	5,774	4,663	-	3,142
Girls Basketball	(173)	834	898	-	(237)
Volleyball	(747)	1,542	1,053	-	(258)
Softball	972	1,673	1,601	-	1,044
Cross Country	-	234	65	-	169
Girls Track	210	410	356	-	264
Total	\$ 39,855	161,774	164,245	-	37,384

See accompanying independent auditor's report.

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 1,098,441	980,208	914,345	869,461
Tuition	250,341	268,743	242,808	298,956
Other	211,508	324,919	161,032	254,227
Intermediate sources	-	61,103	37,477	-
State sources	1,552,826	1,438,737	1,463,061	1,475,475
Federal sources	320,572	154,496	203,558	254,823
Total	<u>\$ 3,433,688</u>	<u>3,228,206</u>	<u>3,022,281</u>	<u>3,152,942</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 1,296,673	1,436,641	1,322,066	1,308,063
Special instruction	313,993	401,792	299,730	391,663
Other instruction	510,474	347,552	430,728	323,152
Support services:				
Student services	81,765	80,185	72,891	71,131
Instructional staff services	75,068	40,678	44,222	56,295
Administration services	441,552	430,681	398,037	380,173
Operation and maintenance of plant services	196,670	217,573	221,807	236,992
Transportation services	191,623	142,213	164,001	146,263
Non-instructional programs	618	495	400	265
Other expenditures:				
Facilities acquisition	267,315	53,081	3,364	103,912
Long-term debt:				
Principal	75,000	79,676	74,883	836,648
Interest and other charges	20,435	22,830	34,948	56,251
AEA flowthrough	91,933	87,761	89,358	95,056
Total	<u>\$ 3,563,119</u>	<u>3,341,158</u>	<u>3,156,435</u>	<u>4,005,864</u>

See accompanying independent auditor's report.

PEAK & GERDES, LLP
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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Board of Education of
Moravia Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Moravia Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 15, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Moravia Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-06, I-B-06 and I-C-06 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Moravia Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Moravia Community School District and other parties to whom Moravia Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Moravia Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Peak & Gerdes, LLP
Certified Public Accountants

September 15, 2006

Moravia Community School District

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-06 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are sometimes processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

I-B-06 Receipt Procedures – The District did not bill a neighboring District \$1,162 for open enrollment for fiscal year 2005. Another neighboring District owes the District \$586 for open enrollment for fiscal year 2006. In addition, it appears the District is not properly collecting all insurance reimbursements due to them for early retiree insurance costs. In general, it does not appear the District has procedures in place to ensure all monies due to them are actually received by the District.

Recommendation – The District implement procedures to ensure all monies due to them are actually received.

Response – We will implement this recommendation.

Conclusion – Response accepted.

I-C-06 Accounting Records – The District performs bank reconciliations for all bank accounts. However, the reconciled bank balance does not always agree to the book balance at the end of every month. In order to ensure that the general ledger is accurate and accounts for all transactions, the reconciled bank balance should be agreed to the book balance each month.

Several checks were cashed by the bank with no signatures on the checks. Also, some monies of the District were not recorded on the accounting system. Adjustments were subsequently made so that all monies were included in the annual report and audit.

Moravia Community School District

Schedule of Findings

Year ended June 30, 2006

Recommendation – The District should reconcile, on a monthly basis, the bank balance to the book balance, and any differences should be investigated in a timely manner. Also, the District should ensure dual signatures are on the checks prior to the distribution of the checks. In addition, all monies of the District should be recorded on the accounting system.

Response – We will implement these recommendations.

Conclusion – Response accepted.

Moravia Community School District

Schedule of Findings

Year ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

- II-A-06 Certified Budget – Expenditures for the year ended June 30, 2006, exceeded the certified budget amounts in the instruction, support services and other expenditures functional areas.

For the fiscal year 2006 budget, the notice of public hearing was published only five days before the actual hearing, even though Chapter 24.9 of the Code of Iowa requires the notice of public hearing to be published between ten and twenty days before the hearing.

The affidavit of publication for the fiscal year 2006 budget certified to the County Auditor was the incorrect affidavit of publication.

Recommendation – The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget. In addition, procedures should be implemented to ensure publications are in compliance with the Code of Iowa. Also, the District should consult the Department of Education on the above issues, and take appropriate action as necessary.

Response – We will amend our budget before expenditures exceed the budget. Also, in regards to the issues associated with the fiscal year 2006 budget, we acknowledge that mistakes were made. However, at this point in time there is nothing additional that we can do. In the future, we will ensure the publications, affidavits and certifications to the County Auditor are in compliance with the Code of Iowa requirements.

Conclusion – Response accepted.

- II-B-06 Questionable Disbursements - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-06 Business Transactions – Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Connie Brown, Board Member	Payroll	\$1,075

The above employee was included on the District's payroll. The contract with the employee was approved by the Board. Due to the size of the transaction, the above does not appear to represent a conflict of interest pursuant to Chapter 279.7A of the Code of Iowa.

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

Moravia Community School District

Schedule of Findings

Year ended June 30, 2006

- II-F-06 Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.

Certain minutes were not timely published, and in another instance the listing of bills approved by the Board was not published, as required by Chapter 279.35 of the Code of Iowa. An instance was noted where the roll call vote of each member to enter into a closed session was not documented as required pursuant to Chapter 21.5 of the Code of Iowa.

Recommendation – Procedures should be implemented to ensure the Board minutes are timely published and all bills are published. Also, the roll call vote to enter into a closed session should be documented in the Board minutes, as required by the Code of Iowa.

Response – We will implement this recommendation.

Conclusion – Response accepted.

- II-G-06 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.

- II-H-06 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.

- II-I-06 Certified Annual Report - The Certified Annual Report was certified to the Department of Education timely.

- II-J-06 Payroll Issues – Some I-9's were missing or incomplete, and some W4's were missing.

Teachers are paid based on years of experience and educational hours completed. The District could not consistently provide support for educational hours completed for the teachers. As a result, the District is unable to determine if it was compensating the correct amount to its teachers. Employee contracts could not always be located. An instance was noted where the amount paid to an employee was different than the contract amount and the related salary scale amount.

Some timesheets were not signed. An instance was noted where it appears an employee was underpaid by several hundred dollars. A form 941 filed with the Internal Revenue Service was incorrectly completed.

Recommendation – The District should ensure the I-9 and W4 forms are correctly completed. In addition, the District should implement procedures to ensure all employees are paid the correct amount based on their experience and educational hours completed. Contracts should be required for all employees, and that the amount paid agrees to the contract and salary scale. The District should ensure that all employee timesheets are approved by a Supervisor before payment, and that all employees are paid the correct amount. Also, procedures should be implemented to ensure the form 941's are correctly completed in the future.

Response – We will implement the above recommendations.

Conclusion – Response accepted.

Moravia Community School District

Schedule of Findings

Year ended June 30, 2006

II-K-06 Disbursements – There was not always documented receipt of merchandise or service prior to the payment of the invoices. Some instances were noted where invoices were not documented as approved for payment prior to Board approval. In other cases, invoices were not available to support the disbursement. Invoices were not consistently marked “paid” after payment. The District does not have a credit card policy as required by Chapter 279.8 of the Code of Iowa.

Recommendation – The District should implement procedures to ensure receipt of merchandise and services are documented prior to the payment of the invoices. Procedures should also be implemented to ensure approval of invoices is obtained prior to Board approval, and that invoices are obtained for all disbursements. Invoices should also be cancelled by marking them “paid” after payment. The District should also implement a credit card policy as required by the Code of Iowa.

Response – We will review the above, and take appropriate action as necessary.

Conclusion – Response accepted.

II-L-06 Financial Condition – The Physical Plant and Equipment Levy Fund had an unreserved, undesignated deficit fund balance of \$2,170 at June 30, 2006. The Management Levy Fund had an unreserved, undesignated deficit fund balance of \$26,044 at June 30, 2006. The Capital Projects Fund had an unreserved, undesignated deficit fund balance of \$84,569 at June 30, 2006. In addition, several student activity accounts had deficit balances at June 30, 2006.

Recommendation – The District should continue to monitor the Physical Plant and Equipment Levy Fund, Management Levy Fund, Capital Projects Fund and the student activity accounts and investigate alternatives to eliminate these deficits.

Response – We will continue to monitor the above funds and the student activity accounts in order to return these funds and accounts to a sound financial position.

Conclusion – Response accepted.

II-M-06 Admission Tickets – Admission tickets were not issued for athletic events.

Recommendation – The District should issue pre-numbered admission tickets for athletic events. The District should then reconcile the dollar value of pre-numbered admission tickets issued to the dollar amount of cash deposited to the bank account.

Response – We will implement this recommendation.

Conclusion – Response accepted.

Moravia Community School District

Schedule of Findings

Year ended June 30, 2006

II-N-06 Fixed Assets – Fixed assets were not periodically counted and reconciled to the fixed asset listing by an independent person. Also, the fixed asset records were not updated in fiscal year 2006.

Recommendation – Fixed assets should be periodically counted and reconciled to the fixed asset listing by a person who does not have custody of the fixed assets. Also, the fixed asset records should be updated to include activity which occurred in fiscal year 2006.

Response – We will implement this recommendation.

Conclusion – Response accepted.

II-O-06 Moravia Education Foundation – A double entry accounting system is not maintained by the Moravia Education Foundation. The Foundation paid for a disbursement even though no invoice existed. Upon further review, we later determined the Foundation paid the disbursement in question twice. Because the invoice was paid twice, the Foundation overpaid the vendor by \$2,528.

Recommendation – The Foundation implement a double entry accounting system. Also, the Foundation should implement procedures to ensure invoices exist prior to payment, and that a refund is requested for the \$2,528 overpayment.

Response – We will implement these recommendations. We have also requested reimbursement for the \$2,528 overpayment.

Conclusion – Response accepted.

II-P-06 Construction Projects – The District entered into various construction projects during the fiscal year. The District did not consistently follow the public hearing and bid requirements as required by Chapter 73A of the Code of Iowa. In addition, the District could not determine if they issued a sales tax exemption certificate or whether they should apply for a sales tax refund in relation to these projects.

Recommendation – In the future, the District follow the Code of Iowa requirements in relation to construction projects, and ensure sales tax exemption certificates are issued on all construction projects.

Response – We were unaware of this requirement until the auditor brought it to our attention, We will implement this recommendation in the future.

Conclusion – Response accepted.

Moravia Community School District

Statement of Activities

Year ended June 30, 2006

Functions / Programs	Expenses	Program Revenues		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	\$ 1,251,923	206,894	252,882	-
Special instruction	313,993	64,671	147,367	-
Other instruction	511,057	160,597	3,780	-
	<u>2,076,973</u>	<u>432,162</u>	<u>404,029</u>	<u>-</u>
Support services:				
Student services	81,765	-	-	-
Instructional staff services	75,068	-	-	-
Administration services	441,552	-	-	-
Operation and maintenance of plant services	198,899	125	141,280	-
Transportation services	174,429	-	-	-
	<u>971,713</u>	<u>125</u>	<u>141,280</u>	<u>-</u>
Non-instructional programs	<u>618</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	42,503	-	-	-
Long-term debt interest	20,285	-	-	-
AEA flowthrough	91,933	-	91,933	-
Depreciation (unallocated)*	55,973	-	-	-
	<u>210,694</u>	<u>-</u>	<u>91,933</u>	<u>-</u>
Total governmental activities	<u>3,259,998</u>	<u>432,287</u>	<u>637,242</u>	<u>-</u>
Business type activities:				
Non-instructional programs:				
Food service operations	<u>156,827</u>	<u>78,661</u>	<u>84,110</u>	<u>-</u>
Total	<u>\$ 3,416,825</u>	<u>510,948</u>	<u>721,352</u>	<u>-</u>

General Revenues:

Property tax levied for:
 General purposes
 Debt service
 Capital outlay
Income surtax
Local option sales and services tax
Unrestricted state grants
Unrestricted investment earnings
Other

Total general revenues

Change in net assets

Net assets beginning of year

Net assets end of year

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.